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November 10, 1994

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Mr. William Caton
Acting Secretary
Federal Communications Commission
1919 M Street, NW, Room 222
Washington, DC 20554

**RE: CC Docket No. 92-296 -- In the Matter of Simplification of the
Depreciation Prescription Process**

Dear Secretary Searcy:

Enclosed are an original and nine copies of **COMMENTS OF
MISSOURI PUBLIC SERVICE COMMISSION** for filing in the above-
referenced matter.

Please return the extra file stamped copy in the enclosed
self-addressed, self-stamped envelope. Thank you for your
attention to this matter.

Sincerely,

Eric B. Witte
Assistant General Counsel
314-751-4140

EBW/ceb

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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

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NOV 14 1994

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In the Matter of)	FCC 94-256
Simplification of the Depreciation)	CC Docket No. 92-296
Prescription Process)	

MISSOURI PUBLIC SERVICE COMMISSION COMMENTS

The Missouri Public Service Commission (MoPSC) submits the following comments in response to the Federal Communications Commission's (FCC's) Further Order Inviting Comments on Simplification of the Depreciation Prescription Process (FOIC). The MoPSC opposes the FOIC proposal for the reasons that follow, and proposes a possible alternative policy.

1. The cost of the FOIC proposal to long-distance customers could be quite high when rate caps are re-established.

The MoPSC reasserts its position that the FCC should not give any LEC the discretion to select its own depreciation rate parameters, with the possible exception of minor accounts.¹ By any definition, the eight accounts addressed by this FOIC could not be regarded as minor; they include the largest plant investment for any LEC. These eight accounts represent \$2.2 billion of investment, or 49 percent of total depreciable

¹ Simplification of the Depreciation Prescription Process, FCC 92-537, Missouri Public Service Commission Comments, pages 2-3; FCC 93-492, Missouri Public Service Commission Comments, pages 1-2.

plant, for the Missouri operations of Southwestern Bell Telephone Company (SWBT), and \$673 million of investment, or 79 percent of total depreciable plant, for the Missouri operations of GTE Midwest.

The MoPSC lacks the time and data to determine the precise effect such a change would have on interstate rates for Missouri LECs.² The MoPSC was able to determine, however, that if the FCC and the MoPSC adopted the proposed depreciation practice for these eight accounts, SWBT could potentially increase Missouri depreciation accrual by more than 20%, or \$56 million annually. Similarly, GTE Midwest could potentially increase Missouri depreciation accrual by more than 19%, or \$10.6 million annually. If these two Missouri LECs are representative of Tier 1 LECs nationwide, the MoPSC estimates that the FOIC proposal, if adopted for both inter- and intrastate depreciation rates, would give Tier 1 LECs discretion over roughly \$1 billion in depreciation expense.³

2. The FOIC proposal will not reduce administrative burdens; it will add to them. Despite a professed goal to relieve LECs of administrative burdens, the FOIC proposal would not relieve LECs of the duty to maintain continuing property records and data to justify all shifts within a range. It would not eliminate triennial three-way reviews. In fact, the only tangible benefit cited in the FOIC is the opportunity to avoid

² The FCC does not set the depreciation rates that apply to intrastate rates. Louisiana Public Service Commission v. FCC, 476 U.S. 355, 106 S.Ct. 1890, 90 L.Ed.2d 369 (1986).

³
$$\frac{(\$56 \text{ million} + \$10.6 \text{ million})}{2 \text{ LECs}} \times 33 \text{ LECs in FCC's jurisdiction} = \$999 \text{ million.}$$

"voluminous submissions, consisting of up to 25 pages of analysis" for each plant account during three-way meetings.⁴ Where tens of millions of dollars annually are at issue, the MoPSC does not regard the filing of 200 pages⁵ every three years as an undue burden.

In the past, three-way meetings promoted administrative efficiency in two ways: they provided a centralized forum for addressing a LEC's depreciation rates, and they created an opportunity to develop consistent rates between the intra- and interstate jurisdictions. The FCC's range procedure diminishes both efficiencies. The FCC does not eliminate administrative burden when it permits LECs to forego filing evidence supporting their depreciation parameters; it merely shifts the work out of the three-way meetings and into individual state forums. If, for example, the FCC does not require SWBT to support its proposed depreciation parameters at its next three-way meeting, then regulators in the states where SWBT operates may individually ask SWBT to produce the evidence, and individually analyze it. Thus, the FCC's policy would result in more administrative work, rather than less. The practice of shifting the work into individual state forums also increases the likelihood of an interstate LEC receiving intrastate depreciation parameters that differ from interstate parameters, and from the parameters established by other states. Permitting a LEC to change interstate depreciation parameters annually exacerbates this problem, because states may be unable or unwilling to expend the resources necessary to conduct annual intrastate depreciation rate cases. While these problems may be inconsequential when the

⁴ FOIC para. 2.

⁵ (25 pages per plant account) x (8 plant accounts) = 200 pages.

financial impact is small, these problems loom large in the context of the eight accounts included in the FOIC proposal.

3. While the FCC states that "[i]f changing conditions require revisions in the ranges, we can modify them at that time,"⁶ it has proposed no mechanism for determining when conditions have changed. The FOIC proposal would relieve a LEC of the duty to provide data supporting its selection of projection lives and future net salvage values--precisely the data that would indicate when the ranges need revising. The financial and regulatory effect of over- or under-accrual for large accounts should prompt regulators to exercise greater caution when dealing with these accounts.

4. The FOIC relies on inappropriate data for establishing ranges. Specifically, the FOIC proposal is based on FCC-approved parameters that, while appropriate for the context in which they were approved, are inappropriate as a basis for establishing ranges. Additionally, the FOIC proposal is based on proposed parameters that are the subject of dispute and have not received FCC approval.

The relationship between data and parameters has become attenuated. In theory, a company's parameters should be selected with company data as the basis, and the company's depreciation rates should be based upon the parameters. Today, parameters are based upon three-way meeting settlements, although many state PUCs do not participate. Moreover, when the parties do agree to the use of a parameter for the purpose of setting a LEC's depreciation rates, it does not mean that any party or the FCC agreed to the use of the parameters for the purpose of establishing industry-wide

⁶ Second Report and Order, para. 25.

ranges. For example, the FCC approved a 12.5 year Probable Life for SWBT's Digital Circuit Account 2232. This choice of Probable Life was based upon two years of data.⁷ Whatever the propriety of basing a depreciation parameter on only two years of data, it is clearly inappropriate to establish industry-wide depreciation ranges on such a basis.

Additionally, the FOIC proposed ranges without reference to the GTE Midwest's FCC-approved parameters.⁸ Instead, the FOIC proposal relied upon proposed parameters from GTE's 1994 three-way meeting. The MoPSC has filed in opposition to some of those parameters,⁹ and reasserts its opposition here. The use of these unapproved parameters, and ignoring FCC-approved parameters, is indefensible.

5. **The FOIC proposal would exacerbate problems with record production.** While the FOIC proposal would not relieve LECs of the duty to maintain continuing property records,¹⁰ it would relieve them of the duty to produce those records during three-way meetings. During such meetings, the FCC and the states sometimes learn that a LEC has not produced adequate records for study purposes. For example, during the last three-way meeting, the MoPSC learned that GTE Midwest failed to perform

⁷ Re Southwestern Bell Telephone Co., Case No. TC-93-224, Report and Order, pp. 37-38 (mimeo) (Missouri Public Service Commission).

⁸ The Prescription of Revised Percentages of Depreciation pursuant to the Communications Act of 1934, as amended, Memorandum Opinion and Order, FCC 92-38, AAD 91-50 (1992) (operating under the name GTE North Incorporated).

⁹ Depreciation Rate Prescriptions Proposed for Certain Domestic Telephone Common Carriers, Docket AAD 94-101, Missouri Public Service Commission Late-Filed Comments (1994).

¹⁰ Simplification of the Depreciation Prescription Process, Notice of Proposed Rulemaking, 8 FCC Rcd 146 (1992), para. 25.

actuarial analyses of Accounts 2220 Operator Systems and Account 2426 Intrabuilding Network Cable, among many others.¹¹ See Attachment 1. This problem might have gone undetected if the FOIC proposal had been adopted prior to the three-way meeting. This example illustrates the importance of having a regular check on LEC depreciation data.

In an era when LECs are reducing payroll and laying off employees, it is reasonable to anticipate reduced oversight to correspond with reduced record retention and analysis. The FCC has proposed no monitoring mechanism to replace the regular review provided by the three-way meetings. Unless the states take the initiative to see that appropriate data is collected and appropriate analyses are done, there may be no checks whatsoever.

Conclusion. The MoPSC opposes applying the FOIC's proposed range procedure to the larger plant accounts. The costs (in terms of potential large shifts in depreciation expense and inordinate capital recovery) exceed the alleged benefits (less paperwork). The proposal would also reduce the incentive for LECs to analyze their own data. Additionally, the proposal would eliminate ready-access to the very data which would permit regulators to monitor its effects. The MoPSC maintains that depreciation parameters for large accounts should be based upon an actual study of actual data.

An alternative. In lieu thereof, the FCC should adopt a different standard for

¹¹ GTE Midwest 1994 Depreciation Study, p. 11. See also Simplification of the Depreciation Prescription Process, Missouri Public Service Commission Comments (FCC 93-492) (1993).

setting ranges with regard to the FOIC accounts.

The FCC's formula for setting ranges has drawbacks. Setting parameter ranges at roughly one standard deviation from a national average value causes the size of the range to increase with the variability of the data; yet the most variable data is the data that warrants the strictest attention, rather than the broadest leeway. Moreover, this formula establishes the upper and lower bounds of a range without taking account of the magnitude of the potential depreciation rate shift.

The MoPSC proposes that the width of the ranges should vary in some inverse proportion to the size of the account, such that the value of the potential depreciation change for each account would all roughly equal some "target discretion value". Accounts that had small balances, on average, would have relatively large ranges; accounts that had large balances, on average, would have relatively small ranges. Such a formula would balance the risk of the ranges with the value of the alleged administrative efficiencies obtained.

For example, if the FCC chose a Target Discretion Value of \$100,000,¹² and the national average value for Account 1234 were \$1 million, then the FCC would set parameter ranges sufficient to permit a LEC with average parameter values to increase or decrease its depreciation rate by 5%. This is because the difference between a 5% increase in a \$1 million account (+ \$50,000) and a 5% decrease in the account (- \$50,000) equals \$100,000, the Target Discretion Value. Similarly, a \$10 million account

¹² Alternatively, the FCC could establish a Target Discretion Value at a fixed percentage of a LEC's depreciable booked plant (or some other measure of a LEC's size), rather than a fixed dollar amount.

would have a range that permitted a 0.5% increase and decrease, whereas a \$500,000 account would permit a 10% increase and decrease.

The MoPSC appreciates the opportunity to comment on this proposal.

Respectfully,



Eric Witte,
Assistant General Counsel for the
Missouri Public Service Commission
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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed or hand-delivered to the entities shown below, and all entities as shown on the attached service list by the 14th day of November, 1994.



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Washington, D.C. 20036

COMPANY: GTE MIDWEST
STATE: MISSOURI

SUMMARY OF LIFE STUDY PROCEDURES

ACCOUNT		STUDY METHOD APPLIED			
NUMBER	DESCRIPTION	LIFE	FULL	COMPUTED	ELG
		SPAN	MORTALITY	MORTALITY	
211200	MOTOR VEHICLES		X		X
211300	AIRCRAFT			X	
211500	GARAGE WORK EQ			X	X
211600	OTHER WORK EQ			X	X
212100	BUILDINGS			X	X
212210	FURNITURE		X		X
212310	OFFICE SUPPORT EQUIP			X	
212320	COMPANY COMMUN EQ			X	
212410	GEN PURPOSE COMPUTERS			X	X
221100	ANALOG ELECTRONIC SW	X			X
221200	DIGITAL ELECTRONIC SW		X		X
221510	ELECTRO-MECHANICAL SW	X			
222000	OPERATOR SYSTEMS			X	
223100	RADIO SYSTEMS			X	X
223200	CIRCUIT EQUIPMENT		X		X
235100	PUBLIC TELE TERM EQ			X	
236200	OTHER TERMINAL EQ			X	
241100	POLES AND TOWERS		X		X
242110	AERIAL METALLIC CBL		X		X
242120	AERIAL NONMETAL CBL			X	X
242210	UNDERGRND METALLIC CBL		X		X
252220	UNDERGRND NONMETAL CBL			X	X
242310	BURIED METALLIC CBL		X		X
242320	BURIED NONMETAL CBL			X	X
242410	SUBMARINE METALLIC CBL			X	X
242420	SUBMARINE NONMETAL CBL			X	X
242600	INTRABLDG NETWORK CBL			X	X
243100	AERIAL WIRE			X	X
244100	CONDUIT SYSTEMS			X	X

JANUARY 18, 1994
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